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Aug. 26, DJIA 855.42; PTI 828; A-D ratio −20.08
Sept. 2, DJIA 872.31; PTI 843; A-D ratio −19.34

THE MARKET: Question: Russell, how would you describe what's happening in the market at this time?

Answer: Well, in the last Letter I wrote that this market was overdue for a rally. I also stated that it was in a *"semi-over-sold"* condition. Finally, I noted that there hasn't been so much as a 5% rally in the Dow all year (a most extraordinary situation) and that something like that could now be taking place. On Friday, September 2, the D-J Industrials and Transports both traced out little upward zig-zags (see chart below), and that could be an indication that the market means to come through with a decent rally.

Question: Do you think that the August lows of 854.12 for Industrials and 214.55 for Transports could have been the bottom for the entire correction?

Answer: Obviously anything is possible, but my answer is "No, I don't think we saw the final bottom in August." As a matter of fact, I would say that the odds are 3 to 1 against August's being the real bottom. But this is important—we are getting down there, and I do think that ***a number of stocks have seen their final reaction lows already***. I include a number of the Dow stocks in this category. Don't forget, there has been a lot of ***special pressure*** on the Dow-type stocks.

Question: What kind of special pressure?

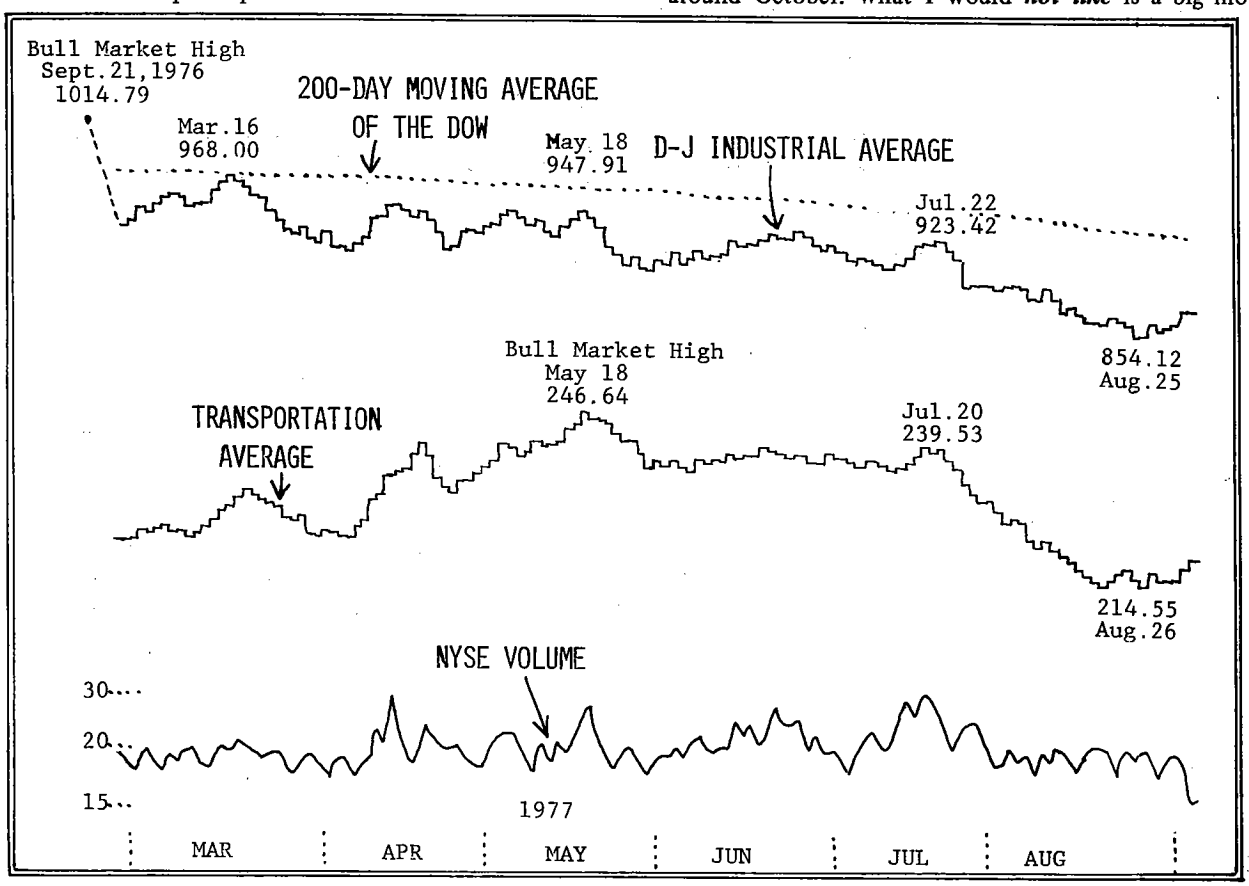
Answer: There has been pressure from large institutions seeking to scale down their Dow-type holdings and diversify into smaller companies and into high-yielding bonds. There has been pressure of foreign selling. Many foreigners have wanted to get out of dollar-based holdings, such as US stocks (foreigners tend to hold the stocks they know, such as the Dow stocks). And there has been selling on the part of those who think that the giant Dow-type stocks are too vulnerable from the standpoint of State and Federal regulators. Thus, a number of Dow stocks (I'll mention some later) are real *values* now, and should probably be nibbled at or accumulated carefully.

Question: Here's something new! Hold it! Are you saying some stocks are a "buy" now?

Answer: Personally, I'm a very patient guy, and I would prefer waiting. But I do feel that some of the battered-down growth stocks and some of the real value classifications could be accumulated with ultimate good results (again, I'll comment later on these).

Question: If the August lows weren't the final lows for the general market, then what are you looking for, Russell?

Answer: What I would "like" is a rally of a few weeks, then a final frightening slide to over-sold lows—to arrive sometime around October. What I would ***not like*** is a big move on the



upside from here–with the Averages extending themselves into a kind of year-end push. If that happens, then I think we will have a very bad time in very late-1977 or in early-1978. For the fact is that major, extended primary advances almost never come from the kind of semi over-sold conditions we saw in August.

Question: OK, Russell, you think many stocks have seen their lows. But aren't large buyers still skittish about this market? For instance, why isn't there more volume on the upside?

Answer: Yes, large interests are still wary of this market, and the reason (as I've said so many times) is because the market has not gone **fully** over-sold. Personally, I like a market that "falls apart" after a long, tedious decline. We just haven't had that kind of selling climax yet.

Let me try to put it another way. Consciously or unconsciously, large, experienced investors know when a market has declined to the point where "the worst that may occur" is ***fully discounted*** in the price structure. I don't feel that that kind of situation has taken place yet. And that means that any rally from here will be subject to a fair amount of *suspicion* by the big money. Which, I believe, accounts for the low volume since the August 19 lows.

I have been asked, "What's wrong with buying into a market that refuses to go over-sold?" And my answer is that in not being over-sold, the market remains susceptible to a possible panic sell-off, a drop inspired perhaps by some piece of unexpected bad news. And, of course, that's why veteran investors **like** to see a selling climax or a fully over-sold market condition. They like it because then they can buy heavily, knowing that the panic (or potential for panic) is BEHIND THEM.

Question: OK, you say that an over-sold market bottom or a panic wash-out bottom would be far preferable. But suppose this market simply heads up from here. And suppose the rise turns out to be the early part of a major advance? Then what do we do?

Answer: I don't think we're going to get a one-year or maybe a two-year primary advance from here. In other words, I don't believe this is the start of the third phase of the bull market. But I don't want to be a wise-guy, and there is one factor worth noting. There is a real "plus" in the technical picture (at least from the Dow Theory standpoint), and that plus was detailed in the last Letter. It is that the Transports (despite all the recent downside action) have refused to violate the *203.85 level* (their low of last October). In that action, they have steadfastly refused to confirm the weakness of the Industrials.

Now that non-confirmation should not be "pooh-poohed" or overlooked. It may be that the non-confirmation is part of a technical structure that is so strong that a selling climax can be avoided. If so, the market could conceivably mount a big advance from here (I must admit, however, that if we do have a major, broad, all encompassing rise from here I will be very surprised).

BUT, I've been around long enough to know that the market is capable of making a fool out of Richard Russell. So if a major advance is somehow fated to start from here, we will turn our attention to the three moving averages of the Dow. The 4-week (or short-term MA) now stands at 865. The 13-week MA stands at 895. If enough confidence is generated to give us a "buy alert" (i.e., the 4-week MA moving above the 13-week MA) I would recommend some buying. And if the confidence continues to the point where the 13 week MA (now 895) pushes above the 50-week MA (now standing at 936) I would recommend even more buying.

You might ask, "Wouldn't we be buying late in the advance?" And my answer is, "probably not." Most major buy signals (i.e., the 13-week MA crossing above the 50-week MA) have come early in primary rises. The insurance characteristics of the moving average method more than makes up for the problem of not buying at the exact bottom. In other words, buying on the signals of the moving averages (in the absence of an over-sold market bottom) forces the market to prove itself. Such buying might also save us from getting caught in an abortive rally, a rally that could collapse in a few weeks or a month or so.

Question: What do you think the chances are of getting your over-sold bottom?

Answer: I'd say pretty good. I have outlined in another section of this Letter some of my criteria for identifying a real, over-sold bottom, or an ideal buying area.

Question: What do you really think is wrong with this market? Why is it so spooky?

Answer: I will give my personal opinion. But first I want to present some figures (these figures are courtesy of my friend, Mike Shumate in Pennsylvania). The 1974 low price for the *Barron's 50 Stock Average* was 205. At the 1974 low the Barron's 50 had a P/E ratio of 6.1. At the 1976 high Barron's 50 rose to 397, and the P/E for the Average advanced to 11.1. At the recent August, 1977 low Barron's 50 Average had dropped to 363, thereby giving up 17.7% of its 1974 to 1976 rise. But the P/E ratio for Barron's 50 had dropped to 8.1 at the August lows. Thus the P/E ratio has come down a fat 60% in the face of an 18% correction (of the 1974-76 rise) for the Barron's 50 Stock Average.

My own opinion is that there are going to be a lot of difficult adjustments in the period ahead–but business is not going to be that great or that bad. It is just going to move along; it is just going to "hang in there." But I do think that the political and social environment is what's been bothering the hell out of this market. Had Ford won the election, I believe we'd be in the third phase of the bull market now.

Let's face it, the big "honeymoon" for the Carter administration has ended. In the eyes of a great many businessmen and political observers, Carter doesn't know what he's doing. Carter has no clear idea where he's going in national affairs or international affairs. I feel that there's some defect in Carter's personality or thinking that seems to be interfering with his clear thinking in the running of our Government. Perhaps that defect is showing itself in the Lance affair. Carter's position on Lance can only be described as a continuing, no-win, ghastly series of stubborn errors. In insisting on Big Burt's basic integrity, Carter is doing something very strange (and I must admit I can't put my finger on it).

And ironically, business (I think correctly) believe that Lance is the only Administration "wheel" close to Carter who understands what is going on in the real world. With Lance there are problems, without Lance there are even greater problems!

Business can do well and the market can go up in the face of any President who has a **position.** In time, business can understand and live with almost any position. Carter, today, is a bigger mystery than he was the day he took office. The fact is he has no recognizable position. Nobody denies that Carter means well. But you can't run a nation or a business on "good intentions."

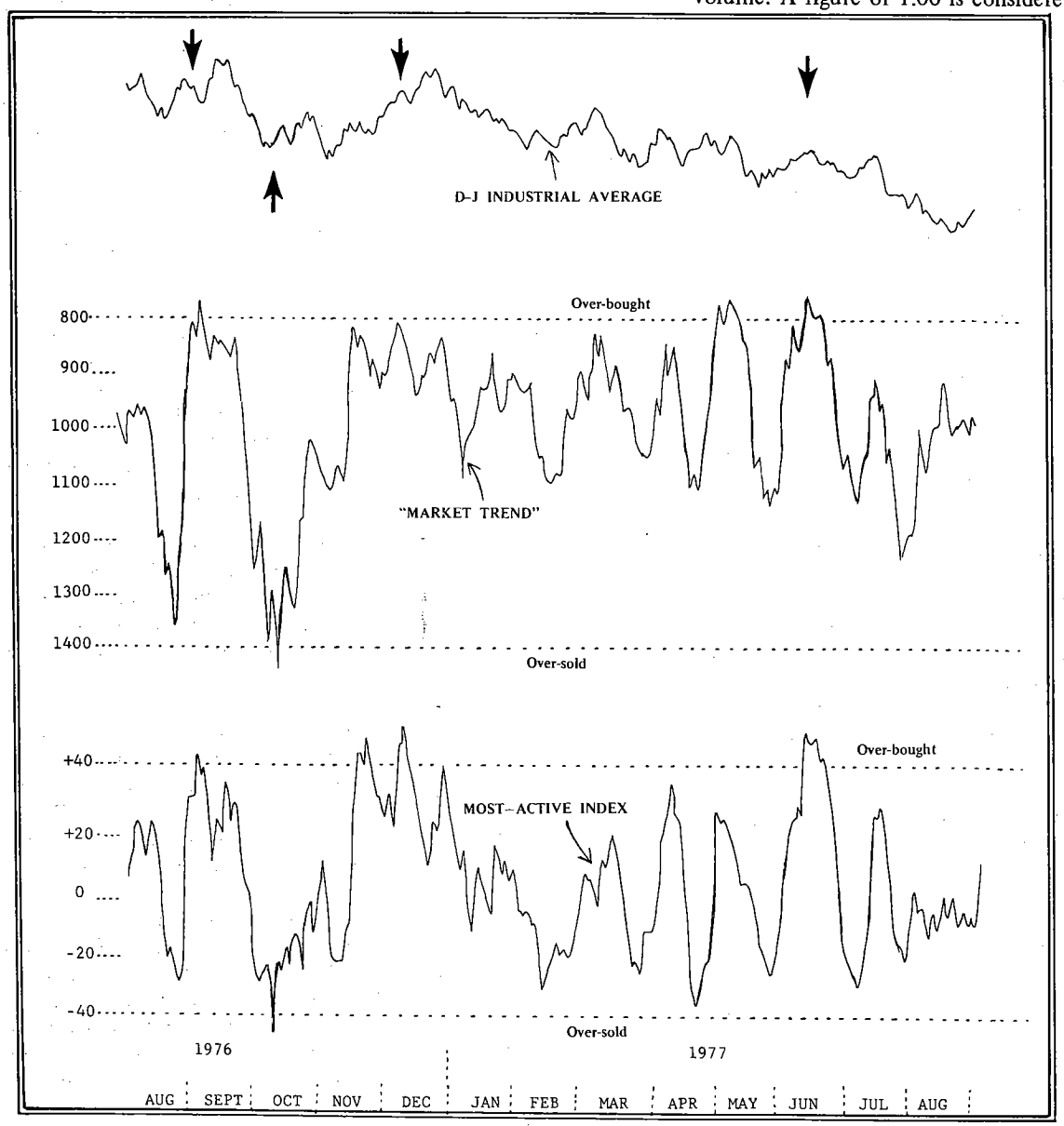
WHEN IS THE MARKET OVER-SOLD? I have received many inquiries over the past month, and the constant question is, "How do you know when the market is over-sold; how do you know when the bottom arrives?" The answer is that there is no certain way of knowing. There's no certainty because, unfortunately, the stock market has never produced "the perfect bottom."

For purposes of identifying the bottom, I use a variety of indices, but the tool I count on most is my own intuition. For in the final analysis, only your intuition can say, "It looks good enough," or "It's not ideal, but this is the nearest I think we're going to get to a perfect bottom."

Aside from one's market savvy or intuition, there is no questioning the fact that tools are necessary for determining a bottom. Personally, I use the Averages with volume implications as my number one tool. Most true bottoms provide hints in the Averages and in volume. Most bottoms, for instance, come on either **abnormally large** volume or **abnormally low** volume. Over the last decade, most of the major bottoms have also been accompanied by **non-confirmations** (often *subtle* non-confirmations) in the Averages.

Right now, for example, we have a continuing important non-confirmation in that the Transports have not broken their 203.85 low of last October. If Transports continue to hold this side of 203.85, it will be a major plus for the market. Furthermore, if we can get an over-sold situation with Transports remaining on this side of 203.85, I will consider the entire market picture that much more attractive, that much stronger.

I want to discuss two indicators which I use, always *together*, in determining the condition of the market. The first is the "**market Trend**" indicator or MKDS (this indicator can be punched out on the Bunko Ramo machines which are available in many brokerage offices). I use only the closing figure on the market trend. The market trend indicator is actually a formula, a ratio. The ratio is advances over declines divided by upside volume over downside volume. A figure of 1.00 is considered neutral. Any figure of 1.5 or more indicates selling pressure and a figure of 2.0 or higher indicates very heavy selling pressure. Conversely, figures of .85 to .65 indicate buying power. Anything under .65 suggests very powerful buying power. I run these closing figures on a 10-day moving average (to smooth out the index).



The reading of the index is simple enough. When the 10-day MA rises above 800, it is safe to conclude that the market is over-bought. When the 10-day MA drops down to 1350 or preferably 1400, the market is oversold. Since this index deals with all issues, one should remember that "the market" refers to the entire market (as measured by the A-D ratio) rather than the Dow.

I use a second indicator along with the market trend index, and this second indicator acts as a **confirming** tool. The second indicator is the differential of the 15 *most-active stocks* on the NYSE (a daily tabulation is used). I take the differential figures and run them

on an 8-day moving average. When the 8-day MA climbs to plus 45 or 50, I conclude that the market is over-bought ("too much excitement and interest in the rising most actives"). Conversely, then the most-active index drops down to minus 45 (or better still minus 50) the market is over-sold ("too much pessimism on the part of the volume leaders").

These two indicators used together, the most-active stocks and the market trend, provide excellent indications of over-bought and over-sold markets. For instance (please refer to the chart on p. 3), the two indices registered over-bought in September, 1976 (this is shown by the first down-arrow). A month later, in mid-October, an over-sold condition was signalled. The October over-sold is identified with the first up-arrow.

Then in December, 1976, the indices signalled an over-bought market again. The Dow struggled up to a late-December high, and turned sharply lower. What happened next was most unusual. The Dow declined steadily, but the two indices never sank into the over-sold area. In fact, incredibly, in June (last down-arrow) the indices signalled over-bought again. At the June over-bought, the market trend index rose above 800 and the most-actives confirmed by shooting up to plus 54.

All of which brings us to the present. The lowest the market trend index sank during August was 1250, which was not near the 1400 needed to produce an over-sold condition. Moreover, the 1250 figure came in early August. By the time the Dow hit its August low, the market trend index had risen to 1000.

The August low for the most active index was minus 24, a far cry from the minus 44 to 50 needed for a confirming over-sold signal on this indicator. Thus, my statement that the market in August went semi over-sold, rather than fully over-sold.

Ideally, at a true bottom for this market, I would "like" to see the market trend index at around minus 1400 with the most-active index at around minus 50–and all this with Transports holding above their October, 1976 low of 203.85. That would be an ideal bottom in my opinion. Will we get it? Maybe, maybe not. The market never gives us *exactly* what we want, but we'll see how close we can get to those ideal figures.

INCOME AND THE BULL MARKET: I've been writing about, expounding about, and drawing attention to the "income factor" for over two years. And I've been recommending bonds ever since this bull market started. I recommended bonds not only as a partial "safety-hedge" but because bonds were great values. I've written Letter after Letter extolling the advantages of compound interest, talking up the great advantages of tax-free Municipal bonds, citing the advantages of high-yielding bonds (bonds providing yields of 8% and more).

Meanwhile, people are writing to me and asking, "Russell, how can it happen. How can this sluggish economy, this listless public and this debt-ridden nation produce a third, speculative phase for the bull market? Where's the 'oomph' going to come from? What's going to provide the excitement, the incentive to purchase common stocks in the land of stagflation?"

All right, I will give my views. First, I think the era of great secular growth is essentially over in this nation. Greed killed it, debt killed it, "grabbing tomorrow today" killed it. When the politicians discovered that they could legislate away what the producers make–and give it to the voters, that was the beginning of the end for growth. There's no question about it. The days of great individual wealth (broadly speaking) are drawing to a close. You just can't make it anymore (of course, I know there will always be exceptions).

And if Jimmy Carter has his way, the day of the big capital gains (which is really the impetus behind the growth story) is over. After all, the voters don't care about capital gains. They have no gains to care about. Furthermore, today there are just too many forms, too many regulating agencies, too many taxes, too many unnecessary expenses, and too many people coming in to swell the already ballooning welfare and unemployment lines.

"Russell," you retort, "that's terrible. But what's it all got to do with this bull market and your thesis of a coming third phase?" And my answer is that with it all, business is probably not going to do too badly in the period ahead. It's not going to be as bad as the pessimists think it will be. But it's not going to be that good either. And with an economy that is fair at best, I see the accent increasingly on the payout–**dividends.**

Remember this: the removal of the capital gains tax would be a big incentive for the large investor to hold his stocks, particularly those stocks that have a record of increasing dividends. For without the advantages of capital gains treatment, it's going to be a whole new ball game. The wealth of America is going to be fighting a "holding action," and that means arranging their affairs so that they continue to receive a good **income.** The concept of "building a fortune," amassing great wealth, will be forgotten. Without capital gains treatment, it will be a matter of **hanging on to what you have,** trying to preserve your purchasing power. This is very much the same thing that has been going on in England since World War II.

Now the big money, the wealthy, tend to control the boards of the great companies. And the fact is that the payout on the Dow Industrials (probably typical of most investment quality stocks) is now very low–well under 50%. That means that there could be a lot of dividend boosts as these companies see the writing on the wall. Dividends will be pushed up because **investors will demand dividends** in the atmostphere of **income.**

The large investor already understands the need for current income. That's the reason the very low yielding stocks (for instance, the glamors) fell apart. And it's the reason the Utility Average doubled. And little by little Wall Street is beginning to comprehend the coming trend to dividends and rising dividend payouts.

Where the investors go, the public follows. I believe that once the public understands the value of income and dividends, we will begin to see a public move back into common stocks. The move will intensify as the market heads higher, and finally the rush will be on. But the rush will be to **income stocks,** and more particularly stocks than can steadily increase their dividends.

Along these lines I am including this very pertinent article from the September 1 *Los Angeles Times.* This is the stuff of which the third phase of this bull market will be made. Growth, glamor, the great concept, may all fall by the wayside in the search for income and dividends. Remember, stocks on an historical basis, are now pretty much on the bargain table. On the other hand, non-productive items such as houses, collectibles, inflation-

oriented vehicles are priced very dearly. Refer to the chart of houses and stocks in my last Letter. That chart says it all. It says that stocks compared to houses are now in their most attractive zone since the end of World War II.

PACE MAY CARRY OVER INTO '78

Rate of Dividend Payments Zooming

Chicago Daily News

CHICAGO—American corporations are raising their dividends at the second-fastest rate since World War II, and the payouts could keep accelerating through the first half of 1978.

A research team at the First National Bank of Chicago that has just finished tracking all the dividend increases since 1946 made the report.

"These increases really are an encouraging vote of confidence in the economy," said Howard Hallengren, a vice president in the bank's trust department. "When businessmen are willing to commit themselves to higher dividends, it means they're optimistic about future earnings growth. They know that one of the worst things that can happen is to get to the point they can't sustain a dividend."

More than merely sustaining dividends of late, American corporations of all sizes and stripe have been lifting dividends aggressively quarter after quarter.

Using raw payout data compiled by the U.S. Commerce Department, the First National researchers found that corporations hiked their dividends an average of 18.2% over the previous year's level in the final quarter of 1976. In the first quarter of '77, dividends rose 14.6% over the year-ago level, and payouts gained 15.1% in the second period of this year.

The intense acceleration is nearly unrivaled in the postwar period, according to M. Dale Fritz, the assistant vice president directing the bank's policy research group.

Only in 1950 was the present pace exceeded, said Fritz.

In that year, payouts rose as much as 28.4% over year-earlier levels. But dividends collapsed the subsequent year. There was another notable advance from the last half of 1952 until late in 1953, but it lacked the apparent staying power being developed in the present surge, said Fritz.

Of course, Fritz and Hallengren emphasized, there is no assurance the dividend derby will continue through this quarter or beyond. But, given present economic conditions, "dividends are strong and will remain so for the foreseeable future," said Fritz.

One of the reasons the men are confident is that most corporations are paying dividends at less than historic levels in relation to their earnings. Dividends today average something less than 40% of earnings in real dollars, as compared with levels approaching 80% in the late '50s and again in the '60s.

When the effects of inflation are factored in, however, today's dividends approach more closely their historic levels. And this fact brings Fritz and Hallengren to the No. 1 caveat to their optimism.

"Everyone got buried in the high inflationary environment accompanying the 1974-75 recession," said Fritz. "In order to maintain their dividends, companies wound up paying 120% to 140% of their earnings. After getting gouged like that so recently, it's really encouraging to see them increasing dividends the way they are."

But, because those memories are so fresh, companies won't be slow to rein in their payouts if inflation appears to be kicking up again, said Hallengren.

"Remember, these are all human decisions," Hallengren continued. "If there were any sort of sign to reverse the present positive psychology, they might well cut those dividends."

IDEAL: There's no such thing as a "perfect Democracy," and there probably never will be. But political experts can describe what the perfect Democracy would be like. Therefore, you can rate any supposed Democracy on how close it comes to the ideal.

By the same token, there never was a perfect business, and there never will be. But let us assume that any business exists to produce profits (of course a business can do a thousand other things, but if it is to exist, it must produce profits). I have long pondered on the various factors which might combine to produce the perfect business. I have been in a number of businesses myself (everything from textile designing to book publishing to owning a night club on the side), and I have talked to hundreds of successful businessmen (and some less than successful). During all those years, I have always wanted to get a list of "ideal factors" together.

The following is my list (at least, up to this point). You might gauge your own business or profession on the basis of this list, or you may want to use this list as a reference for measuring the potential for a new enterprise.

(1) The ideal business sells the *world*, rather than a single neighborhood or a single city or locality (in other words, it has a huge market).
(2) The ideal business has a product with "inelastic demand." This means that people *need it*, almost regardless of price.
(3) The ideal business has low labor requirements; the fewer people needed, the better.
(4) The ideal business sells a product which fits a *continuing* human (or animal) *need*. It's not a fad product, it's not a product which people can easily substitute or even do without.
(5) The ideal business has low overhead; it does not need an expensive location, it does not need large amounts of electricity, advertising, legal advice, etc.
(6) The ideal business produces a product which is difficult (or almost impossible) for a competitor to copy or reproduce. This means the product is an original (such as a publication) or it requires very special know-how, or it produces a product which is *protected* by copyright or patent.
(7) The ideal business does not require huge cash expenditures or large investments in equipment. In other words, it does not tie up your money.
(8) The ideal business is a business that has cash billings; it does not tie up your money in extended credit arrangements.
(9) The ideal business is relatively free from all kinds of government and industry regulations.
(10) The ideal business is portable. You can put it anywhere you want, in Florida, California, the Canary Islands.
(11) Here's a crucial but overlooked one: the ideal business is one that keeps you fascinated, *you love it*, it requires your full intellectual (and often your emotional) energies.

There you are. If you use this list, it might help you cut through a lot of nonsense and hypocrisy about what you are doing and what you are looking for. None of us owns or works for an ideal business. But it's nice to know what one would look like.

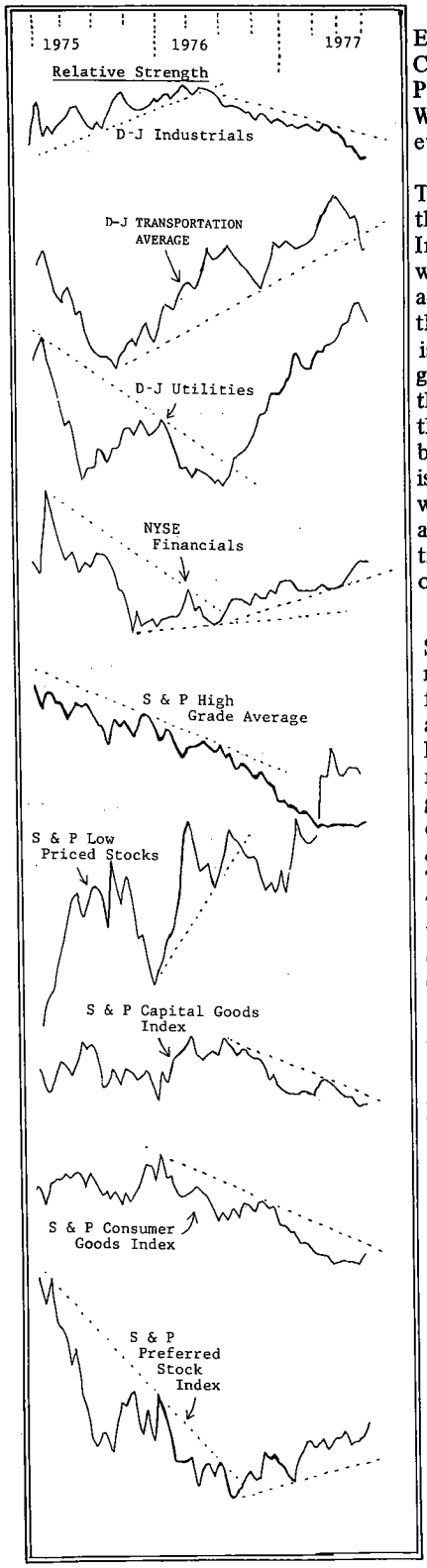
STRATEGY: Earlier in the report I wrote that for those who were impatient, maybe it was time to nibble at a few stocks, stocks that had probably hit their lows. I've had that statement on my mind as this Letter was being typed, and now I'm going to say, "Hold it, let's sit tight for a while longer. Let's wait for the fully sold-out bottom." I'm afraid that somehow those who "buy 'em early" are going to get shaken out on a final decline. I'm afraid they could totally lose their perspective if they have to ride out a final decline.

Right now, for instance, those who (against my advice) are holding any large quantities of stocks are necessarily thinking and hoping "on the wrong side of the market." Those holders are hoping that the market will hang on or rally from here. They are hoping for a rally because they don't want paper losses and sleepless nights.

On the other hand, those who did follow my advice and are holding bonds, money instruments and very few if any common stocks, these people are waiting patiently (I hope) for a fully over-sold market, a "wipe-out" if necessary, so that they can buy stocks in the most advantageous and safest possible atmosphere.

In the end, I know that the best position is one of patiently waiting for the right spot to make your move. This is true in business, it is true in love, it is true in war and it is true in the stock market. Therefore, I am going to ask my subscribers to sit tight a while longer.

I've been going through groups of stocks on a value basis, and it's the *Utility Group* that stands out in terms of values. Any number of highly-rated utilities (with long records of dividend increases) are yielding 7% to 8%. This would seem to put definite floors on these stocks (I'm thinking of such issues as American



At the top of the chart is RS for the *Dow*. The Dow has been weaker than the market (as gauged by the NYSE Index) since early 1976. I think that is about to change.

On the other hand, the *Transportation Average* has been stronger than the market for two years running. A few weeks ago RS in the Transports cracked wide. One reason may be because the yield on the D-J Transportation Average is now 4.46%. This is one of those rare times in history when **Transports yield less than the Dow** (Dow yield is 5.16%).

Electric Power, Atlantic City Electric, Delmarva Power, Virginia Electric, Washington Public Power, etc.

The ratio of the price of the Dow and the NYSE Index is finally closing, which means that the action of the Dow and the "rest of the market" is slowly coming together. So far, it's been the Dow that has taken the real downside beating. My feeling here is that on any further weakness, the Dow will act better, on a relative trend basis, than the rest of the market.

Some of the Dow stocks may have seen their lows for the correction, and among them I list Minnesota Mining, Eastman Kodak (two collapsed growth stocks of top quality), Sears, Proctor & Gamble, Texaco, Amer. Telephone, Amer.Brands. The Dow stocks showing the *best relative strength* over the past 13 weeks (courtesy of S.H.Dike Co., 1420 Carlisle Blvd.NE, Albuquerque, NM 87110) are as follows: (1) Minn. Mining, (2) Sears, (3) Proctor, (4) Kodak, (5) Gen.Foods, (6) Amer.Can, (7) Texaco, (8) DuPont, (9) Telephone, (10) Standard of Calif.

To go further with relative strength (RS), I have included my RS chart of the three Dow Averages and six other key groups. All of these groups are computed as ratios of the NYSE index, and groups are plotted at the beginning and middle of each month.

The *Dow Utilities* (yield 7.13%) is by far the strongest Average on a RS basis. The recent little downturn in RS is to be expected. The *NYSE Financial Index* and the *S & P Preferred Index* are both very sensitive to interest rates and their trend has been bullish for almost two years. If there's a money crisis ahead, you don't see it in the RS profiles of the Financials or the Preferred's.

I think the two groups that interest me most at this time are the *Capital Goods* and the *Consumer Group*. Both of these look capable of reversing long downtrends, but the Consumer Group looks the more promising of the two. Many of the consumer oriented stocks such as fast-food, hotels, retail stores, have undergone severe corrections and now represent good value. Thus, money may be slowly moving into these groups.

Conclusion: I want to sit tight. This is the time to watch, to study, to try to determine where the pockets of strength are building. The hardest thing to do in the market is "sit on your hand," refrain from bouncing in and out, exercising patience. But I've seen "doing nothing" pay off over and over again during bull markets. I saw it pay off in 1962 and 1957. And we may be in a situation reminiscent of those difficult (but ultimately rewarding) years right now.

MONEY: The bond market continues to act well. Watch the Treasury 8's of 1996. A (closing) bid price of 105 will constitute an upside breakout, as discussed in the last Letter.

Here are the highest current yielders in the various money categories. Money market funds, *Dreyfus Liquid Assets* with a July yield of 4.9%. In Tax-Exempt Bond Funds, *Rowe Price Tax-Free* at 5.2% for July. Closed-End Bond Funds (listed on the NYSE), *U S Life Income* at 8.5% yield. And for Open-End Bond Funds the high yielder is *Northeast Investors Trust* at 8.5% for July. Northeast is the high yielder of the pack, and it is no-load at that. Address is 50 Congress St., Boston, Mass. 02109. (For the record, I have funds invested in Rowe and Northeast).

LATE NOTES: The market is up off its August lows–and as of this writing it seems to be going dead. There's an undercurrent of nervousness in the market, based partly on the unsettled political situation, based partly on investors' suspicions that the market never went over-sold, and based on mixed business statistics for the period ahead. A late worry, of course, is that the Fed has pushed the banking system into net borrowed reserves, while hiking the discount rate a full ½%.

As for me, I don't think I've had such a tough time writing a report in a long time. Whenever I find myself pulling my hair out (what's left of it) about "what I should tell my subscribers," I stop and ask, "What are you doing, Russell?" So far, I'm still in bonds. I'll be damned if I want to mess with a market as sticky as this one when I can get 5% tax free income or 8.6% taxable income.

But I'm watching the market and I'm watching those August lows. Already, my page 3 indicators are moving up towards the over-bought zone, and the market hasn't gotten anywhere. That's not a particularly encouraging sign. This market is very reluctant to "tip its hand." And it will take more time to see whether the rally from the August lows is going to go anywhere.

BEATING INFLATION: Poor inflation, it's taken the blame for an awful lot of stock market stupidity. There has been more money lost "trying to beat inflation" than anyone wants to admit. Some of the experts tell us how terrible it is to hold bonds that only yield 8%, when inflation is 10%. And I tell them, "Look, I'm not greedy. Standing still is a lot better than being on the down-escalator. " Which is where you are when the stock market is protecting itself against something that it doesn't like.

NEXT MAILING: September 21st